

Message Text

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FM SECSTATE WASHDC
TO AMEMBASSY BONN PRIORITY
AMEMBASSY TOKYO PRIORITY
AMEMBASSY LONDON PRIORITY
AMEMBASSY OTTAWA PRIORITY
AMEMBASSY THE HAGUE PRIORITY
AMEMBASSY BRUSSELS PRIORITY
AMEMBASSY ROME PRIORITY
INFO AMEMBASSY TEHRAN PRIORITY

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E.O. 11652: N/A

TAGS: EFIN, PK

SUBJECT: INFORMAL MEETING--PAKISTAN DEBT

REF: STATE 109392

THE FOLLOWING IS THE TEXT OF PARIS 14557:

1. SUMMARY: AT INFORMAL IBRD-SPONSORED REVIEW PAKISTAN
DEBT, JAPAN, GERMANY, FRANCE, CANADA, BELGIUM AND UK IN-
DICATED IN VARYING DEGREE A CAUTIOUS BUT OPEN APPROACH TO
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PAKISTAN PROPOSAL FOR DEBT RESCHEDULING. ALL HOWEVER
PREOCCUPIED WITH POLICY MEASURES PAKISTAN SHOULD/WOULD
TAKE TO BEGIN NEEDED REDRESSING THEIR SITUATION. SWEDEN
HAD DECIDED TO RESCHEDULE. WE STATED OUR VIEW THAT
PAKISTAN DOES NOT NEED RESCHEDULING THIS TIME AND THAT WE
SHOULD RE-EXAMINE SITUATION LATER IN YEAR WHEN BETTER
INFORMATION AVAILABLE ON B/P BUDGET AND OTHER FACTORS OF

ECONOMIC SITUATION. GERMANY AND CHAIR NOTED EVENTS IN AFGHANISTAN AND WONDERED ALOUD WHETHER THIS MIGHT MEAN A FURTHER SKEWING OF PAKISTAN EXPENDITURES FOR MILITARY PURPOSES. THERE WAS NO CONSENSUS ON FUTURE MODUS OPERANDI. GROUP AGREED SIMPLY TO CONSULT RESPECTIVE CAPITALS AND RESUME DISCUSSIONS LATER. END SUMMARY.

1. PRESENT AT MAY 4 IBRD-SPONSORED MEETING WERE JAPAN, ITALY, GERMANY, FRANCE, HOLLAND, CANADA, BELGIUM, UK, US AND SWEDEN. CHAIR: IBRD. CHAIR (HOPPER AND BLOBEL) OPENED MEETING WITH STATEMENT OF NEED AS SET FORTH BY GOP. IN THEIR VIEW GOP HAS A VERY SERIOUS PROBLEM LOOMING IN BALANCE OF PAYMENTS, WHICH DEBT SERVICING MAKES ALL THE MORE DIFFICULT. HOWEVER ONE MEASURES DEBT PROBLEM IS SERIOUS. THEY RECALLED THAT IN RESPONSE PAK REQUEST FOR DEBT ACTION LAST DECEMBER CONSORTIUM SAID WOULD CONSIDER REQUEST IF OTHER CREDITORS, WHO NOT CONSORTIUM MEMBERS EFFECTIVELY PARTICIPATED, AND IF ACCEPTABLE ACTION TAKEN BY GOP TO GET OUT OF IMMEDIATE ECONOMIC MESS AND TO RESTRUCTURE THE DEVELOPMENT PROGRAM. IRAN HAS INDICATED TO BANK THAT IT WILL RESCHEDULE SUBJECT TO OTHER DONORS ACTIONS. IRAN WOULD BE PREPARED TO JOIN THE CONSORTIUM IN ITS ACTION ON ANY LONGER TERM RESCHEDULING. PAKISTAN WANTS RELIEF OF \$300 MILLION PER YEAR ON ALL EXTERNAL DEBT OVER FIVE YEAR PERIOD. NOTE: THIS APPEARS TO EXTEND TO PRIVATE DEBT PUBLICLY GUARANTEED BY GOP. UNCLASSIFIED

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END OF NOTE. IBRD WILL NOT VOUCH FOR THE DEBT DATA OF THE GOP NOR INDEED FOR ITS OWN. THERE IS AN IMF TEAM IN PAKISTAN NOW ATTEMPTING INTER ALIA TO GET ACCURATE DATA WHICH ALL THOSE INVOLVED CAN USE. APART FROM BALANCE OF PAYMENTS PROBLEMS THERE ARE DOMESTIC DIFFICULTIES THAT HAMPER THE GROWTH OF THE ECONOMY WHICH MAY TAKE YEARS TO RECTIFY.

2. BLOBEL NOTED THAT A FIVE YEAR PLAN WAS DUE AT THIS TIME BUT DONORS SHOULD BE GRATEFUL THAT IT IS NOT AVAILABLE SINCE IT WOULD HAVE NO AUTHORITY. THE PRESENT GOVERNMENT HAS PUBLICLY STATED WHAT APPEARS TO BE FACT THAT IT IS TEMPORARY AND IT INTENDS TO RETURN POWER TO A CIVIL ADMINISTRATION EARLY NEXT YEAR. THUS THEY ARE HARDLY IN POSITION TO DESIGN A LONG TERM PLAN AND IMPLEMENT IT, AND THERE IS THUS NO POLITICAL BASIS FOR LONG TERM DEBT RELIEF. WE UNDERLINED FACT THAT ALTHOUGH ONE CAN ARGUE ABOUT INDIVIDUAL ELEMENTS OF B/P, THERE IS STRUCTURAL DEBT PROBLEM IN PAKISTAN AND ADDED THAT WHILE OBVIOUSLY A LONG TERM SOLUTION NOT NOW POSSIBLE, DONORS MIGHT AGREE TO EXTEND DEBT RELIEF FOR ONE YEAR AND AWAIT EVENTS IN PAKISTAN. SUCH AN AGREEMENT TOGETHER WITH AN IMF

STANDBY AGREEMENT MIGHT MAKE POSSIBLE A MORE RATIONAL DECISION LATER IN YEAR. HE CONCLUDED BANK STATEMENT BY NOTING THAT WHATEVER THIS GROUP DOES WILL HAVE GREAT EFFECT UPON OTHERS, PARTICULARLY IRAN.

3. BELGIUM SAID THAT IT WOULD BE ABLE TO GRANT DEBT RELIEF, AT LEAST FOR PUBLIC DEBT, BUT THAT IT COULD AND WOULD NOT CONSIDER RELIEF FOR PRIVATELY CONTRACTED DEBT

WHICH WAS GUARANTEED BY THE GOP. THEY WERE SOMEWHAT EMBARRASSED BY FACT THAT THEY PREVIOUSLY HAD GRANTED SOME RELIEF OF THIS LATTER KIND. WE SHOULD NOT YIELD ON THE PRIVATE DEBT QUESTION BECAUSE EVERY COUNTRY WILL COME FOR THAT AND CONTRACTS WILL LOSE THEIR MEANING.
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4. DUTCH SAID THEY HAVE SAME PROBLEMS AND APPROACH AS BELGIUM. THEY UNDERSTAND THAT SOME OF EURO-CURRENCY BORROWING WAS AT INTEREST RATES OF UP TO 30 PERCENT. RELIEF MUST BE LIMITED TO OFFICIAL DEVELOPMENT ASSISTANCE DEBT. NOT PRIVATE DEBT. IF AGREEMENT POSSIBLE THEY WILL GO TO 100 PERCENT GRANT ON PAYMENTS DUE THIS YEAR. BEYOND THIS YEAR RELIEF POSSIBLE ONLY WITH BASIC AND QUITE TOUGH FISCAL REFORMS FOR THESE ARE PROBLEMS THE GOP ITSELF HAS GENERATED. PREVIOUSLY PAKISTAN WAS A SPECIAL CASE OF A COUNTRY'S DISINTEGRATING. THIS TIME IT IS SIMPLE MISMANAGEMENT.

5. THE UK SAID THAT THEY ARE EXAMINING HOW THEY PLAN TO DEAL WITH RETROACTIVE TERMS ADJUSTMENT AS PER THE UNCTAD MINISTERIAL RESOLUTION ON DEBT AND THIS DECISION MAY RESOLVE QUESTION RE PAKISTAN. HE WAS VERY CONCERNED THAT DATA ON UK AID SEEMED TO BE GIBBERISH. BLOBEL INDICATED THAT HE WILL TRY TO RECONCILE THE VARIOUS DATA BEFORE THE JUNE MEETING BUT INDICATED THAT THE QUALITY OF DATA ON DEBT IS DETERIORATING IN ISLAMABAD (GOP).

6. CANADA WILL EXAMINE DEBT ON A CASE BY CASE BASIS AS UNCTAD AGREED IN GENEVA. THEY WANT TO SEE THE DEVELOPMENT STRATEGY OF PAKISTAN AND WANT TO HEAR FROM GOP WHAT THEY INTEND TO DO ABOUT REFORMS AND DEVELOPMENT--IN TERMS OF MEASURES TO RESTRUCTURE EXPORTS AND IMPORTS, INCREASE TAX BASE AND COLLECTIONS AND REDUCE EXPENDITURES, PARTICULARLY ON ARMAMENTS AND CAPITAL INTENSIVE INDUSTRY. IF THEY CAN PRODUCE NO SUCH PLAN CANADA WILL NOT BE ABLE TO PARTICIPATE IN DEBT RELIEF.

7. SWEDISH PARLIAMENT DECIDED APRIL 12 TO WRITE OFF
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ALL DEBT AS OF JUNE 30, 1978 FOR THIS YEAR. AMOUNT IS 24.6 KRONER.

8. GERMANY CANNOT YET SAY WHAT IT PLANS. GOP ACTIONS SINCE LAST RESCHEDULING HAVE HAD A NEGATIVE EFFECT ON ITS ABILITY TO HELP ITSELF FOR TO HAVE OTHERS HELP THE. THESE WERE GOP POLICY ACTIONS. ONLY JUSTIFICATION FOR RESCHEDULING WOULD BE IF NEW POLICIES AGREED AND ACTED UPON. GERMANY MAY BE WILLING TO RESCHEDULE BUT THEY NEED TO KNOW FROM AN EXPORT GROUP WHAT IS THE VOLUME NEEDED AND WHAT CONDITIONS SHOULD BE IMPOSED. GERMANY WOULD NOT

INCLUDE PRIVATE. GOP HAS HIDDEN RES:RVES IN THE RE-MITTANCES. IT IS, HOWEVER, ESSENTIAL TO TAKE INTO ACCOUNT POLITICAL IMPLICATIONS OF THE COUP IN AFGHANISTAN AS THEY WILL SERIOUSLY AFFECT THIS GOVERNMENT IN PAKISTAN, PARTICULARLY CONCERNING ITS DEFENSE NEEDS AND HOW THEY REORDER THEIR EXPENDITURES.

9. JAPAN REGRETTED THAT GOP STILL CANNOT STAND ON ITS OWN FEET, WHICH WILL REQUIRE DIFFICULT DECISIONS. JAPAN WILL BE READY TO LOOK AT 1978-79 DEBT PROBLEM IN JUNE, TAKING INTO CONSIDERATION THE ATTITUDE OF THE REST OF THE MEMBERS OF THE CONSORTIUM. THERE WILL HAVE TO BE MAJOR REDUCTIONS IN EXPEDITURES.

10. FRANCE NOTED ITS VIEWS ARE CLOSE TO THOSE OF JAPAN, THEY CAN DO NOTHING UNTIL THE IMF REPORT AVAILABLE. PERHAPS THEY WILL BE ABLE TO RESCHEDULE FOR ONE YEAR BUT NO LONGER.

11. WE REPORTED OUR VIEW DRAWING ON PARAS 3 AND 5 OF STATE 109392 (DTD APRIL 29) THAT RESCHEDULING IS NOT WARRANTED AT THIS TIME, BUT THAT WE WOULD BE PREPARED TO RE-EXAMINE QUESTION LATER WHEN MORE DETAILED INFORMATION AVAILABLE.

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12. HOPPER, NOTING THE DIFFERENCES OF VIEWS AND VARIETY OF OPTIONS PUT BEFORE THE GROUP AND THE UNWILLINGNESS TO ENTER INTO A GENERAL DEBATE ON COURSES OF ACTION GIVEN THE LARGER NUMBER OF UNCERTAINTIES, SUGGESTED THAT CONSULTATIONS WITHIN CAPITALS CONTINUE AND THAT THEY WOULD TAKE COUNSEL FROM US ALL SUBSEQUENTLY. THIS WAS AGREED.

VANCE

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